USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 3/21/2006

GAIN Report Number: AS6017

Australia

Grain and Feed

Annual

2006

Approved by:
Kathleen Wainio, Agricultural Counselor
U.S. Embassy

Prepared by:
Mike Darby, Agricultural Specialist

Report Highlights:
Wheat production for 2006/07 is forecast at 24.0 MMT, 1.1 MMT below the 2005/06 crop. Long range ABARE projections project wheat production increasing year-on-year to 27.7 MMT in 2010/2011. Barley production for 2006/07 is forecast at 8.9 MMT, down just under 1.0 MMT from the previous year level. Australian sorghum production for 2007/08 is forecast at 1.99 MMT, down slightly from the previous year. Australian rice production for 2007/08 is forecast at 1.1 MMT, up slightly from the previous year due to improved reserves of irrigation water.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Canberra [AS1]
[AS]

Table of Contents

SECTION ONE: SITUATION AND OUTLOOK

Summary

A return to more normal weather conditions in 2005/06 has seen Australian cropping industries return to more normal levels of production. Grain production and exports have recently returned to pre-drought levels. Depleted livestock numbers due to persistent drought conditions has placed upward pressure on crop areas, particularly winter cereals such as wheat and barley. Area planted to crops is forecast at average to above average levels.

Despite reduced grain prices in recent years, the outlook for Australian grain prices is forecast to remain firm or rise in 2006/07. This outlook is supported by recent figures showing on-farm investment activity to have improved significantly in recent years, aided somewhat by historically low interest rates.

Australian economic growth in Australia is forecast at 3.0 percent in 2006/07 and this growth is projected to increase beyond the outlook period. This combined with world economic growth is expected to see strong demand for Australian grain both domestically and for export. More specifically, the rise of China as a major buyer of Australian commodities is also expected to see export demand for key agricultural commodities, such as grain, improve.

The Australian feedgrain industry has historically played a minor role in the overall grain market. However, recent high demand from intensive livestock industries has seen the feedgrain sector grow in significance as a domestic consumer and overall market.

The exclusion of U.S. Beef from the Japanese market and the subsequent high demand for Australian beef in that market has led to record level of cattle on feed for 2005/06. Despite expectations that this will ease somewhat in 2006/07, post expects grain demand, particularly for feed grain, to remain at historically high levels.

SECTION TWO: STATISTICAL TABLES

PSD Table Wheat							
	2004	Revised	2005	Estimate	2006	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**10/2004**		**10/2005**		**10/2006**	*MM/YYYY*
Area Harvested	13768	13766	11800	12625	0	12807	*(1000 HA)*
Beginning Stocks	5360	5218	6893	6907	7868	7785	*(1000 MT)*
Production	22600	22605	24000	25098	0	24000	*(1000 MT)*
TOTAL Mkt. Yr. Imports	75	79	75	80	0	81	*(1000 MT)*
Jul-Jun Imports	76	78	75	79	0	80	*(1000 MT)*
Jul-Jun Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	28035	27902	30968	32085	7868	31866	*(1000 MT)*
TOTAL Mkt. Yr. Exports	14742	14395	16500	17500	0	17100	*(1000 MT)*
Jul-Jun Exports	15826	15440	16000	17250	0	17200	*(1000 MT)*
Feed Dom. Consumption	3700	2338	3900	2600	0	2900	*(1000 MT)*
TOTAL Dom. Consumption	6400	6600	6600	6800	0	7000	*(1000 MT)*
Ending Stocks	6893	6907	7868	7785	0	7766	*(1000 MT)*
TOTAL DISTRIBUTION	28035	27902	30968	32085	0	31866	*(1000 MT)*

PSD Table Barley							
	2004	Revised	2005	Estimate	2006	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**11/2004**		**11/2005**		**11/2006**	*MM/YYYY*
Area Harvested	4617	4617	4100	4739	0	4645	*(1000 HA)*
Beginning Stocks	1887	1847	1589	1794	1289	2182	*(1000 MT)*
Production	7702	7708	8500	9869	0	8900	*(1000 MT)*
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	9589	9555	10089	11663	1289	11082	*(1000 MT)*
TOTAL Mkt. Yr. Exports	4500	4261	5500	5881	0	4900	*(1000 MT)*
Oct-Sep Exports	4481	4200	5500	5900	0	4950	*(1000 MT)*
Feed Dom. Consumption	2600	2300	2400	2400	0	2500	*(1000 MT)*
TOTAL Dom. Consumption	3500	3500	3300	3600	0	3700	*(1000 MT)*
Ending Stocks	1589	1794	1289	2182	0	2482	*(1000 MT)*
TOTAL DISTRIBUTION	9589	9555	10089	11663	0	11082	*(1000 MT)*

PSD Table
Sorghum

	2004	Revised	2005	Estimate	2006	Forecast	*UOM*
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		**03/2005**		**03/2006**		**03/2007**	*MM/YYYY*
Area Harvested	803	803	750	889	0	773	*(1000 HA)*
Beginning Stocks	63	150	235	477	130	531	*(1000 MT)*
Production	2177	2184	2000	2308	0	1988	*(1000 MT)*
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Imports	0	0	0	0	0	0	*(1000 MT)*
Oct-Sep Import U.S.	0	0	0	0	0	0	*(1000 MT)*
TOTAL SUPPLY	2240	2334	2235	2785	130	2519	*(1000 MT)*
TOTAL Mkt. Yr. Exports	200	262	500	299	0	275	*(1000 MT)*
Oct-Sep Exports	370	262	500	299	0	275	*(1000 MT)*
Feed Dom. Consumption	1800	1591	1600	1950	0	1850	*(1000 MT)*
TOTAL Dom. Consumption	1805	1595	1605	1955	0	1855	*(1000 MT)*
Ending Stocks	235	477	130	531	0	389	*(1000 MT)*
TOTAL DISTRIBUTION	2240	2334	2235	2785	0	2519	*(1000 MT)*

PSD Table
Rice, Milled

	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		03/2005		03/2006		03/2007	MM/YYYY
Area Harvested	48	48	115	105	0	118	(1000 HA)
Beginning Stocks	550	308	406	96	381	294	(1000 MT)
Milled Production	231	231	715	716	0	782	(1000 MT)
Rough Production	323	323	1000	1001	0	1098	(1000 MT)
MILLING RATE (.9999)	7150	7150	7150	7150	0	7150	(1000 MT)
TOTAL Imports	125	105	110	110	0	105	(1000 MT)
Jan-Dec Imports	125	105	105	105	0	110	(1000 MT)
Jan-Dec Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	906	644	1231	922	381	1181	(1000 MT)
TOTAL Exports	105	188	450	258	0	501	(1000 MT)
Jan-Dec Exports	100	175	500	250	0	450	(1000 MT)
TOTAL Dom. Consumption	395	360	400	370	0	380	(1000 MT)
Ending Stocks	406	96	381	294	0	300	(1000 MT)
TOTAL DISTRIBUTION	906	644	1231	922	0	1181	(1000 MT)

SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

General

The 2006 forecast year for wheat production begins with Harvest in October 2006 (Market year begin 10/2006). However this crop will likely be sown in April/May 2006. Barley is similar, however the forecast year begins in November (Market year begin 11/2006). Barley is a slightly shorter season crop and planting will likely commence May/June 2006 and harvest in November 2006.

The 2006 forecast year for summer crops Sorghum and Rice begins with harvest in March 2007 (Market year begin 03/2007). However, these crops will likely be planted about October/November 2006. Depending on seasonal conditions, Australia can also plant a "late" sorghum crop, which may be planted as late as December/January and harvested in May/June – however post treats sorghum as one crop for the purpose of this report.

Planting and harvest times can vary widely from the suggested times due to differences in climate between crop producing regions, and season-to-season variation in weather patterns.

Weather Conditions

Australia appears to have emerged from prolonged drought conditions, which began in 2002/03, with a near record 25 MMT wheat crop for 2005/06. Although conditions are described as dry at time of writing this report, planting for 2006/07 winter cereal crop is not expected to commence until March/April and is not likely to conclude until May/June allowing ample time for soaking rains. Post anticipates average seasonal conditions and has forecast production of wheat and barley at levels slightly above the historical average.

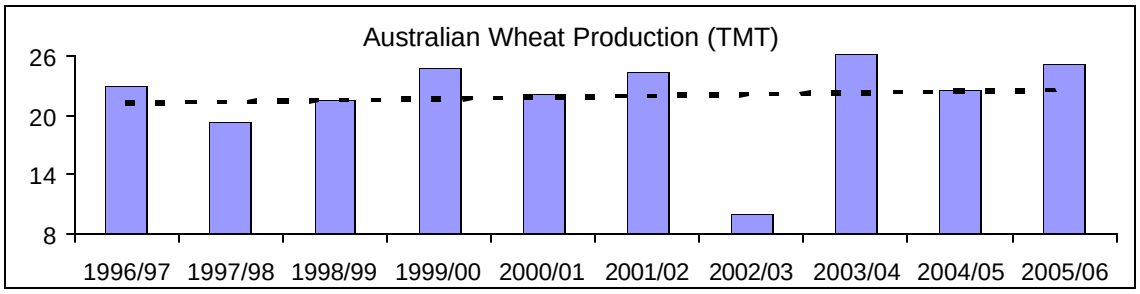
Planting of the 2007/08 summer crop (sorghum and rice) is not expected to begin until October/November 2006 and will not be harvested until April/May 2007. 2007/08 summer crop production remains highly dependant on irrigation water reserves, which have recovered significantly from historical lows endured during the drought. Water storage levels are expected to recharge further over the next 6 months in the lead-up to summer crop planting.

Post advises that a return to drought conditions in CY 2006 would likely see production forecasts for the 2006/07 winter crops and the 2007/08 summer crops revised downwards.

WHEAT

Production

Wheat production for 2006/07 is forecast at 24.0 MMT, about 1.0 MMT below the recently revised crop of 25.1 MMT for 2005/06. The 2006/07 forecast represents an average sized crop. According to ABARE's historical data, a 24.0 MMT crop would be considered the fifth largest crop on record. It is also interesting to note that seven out the past ten crops have fallen within the range of 22-26.0 MMT.



Source: ABARE Data

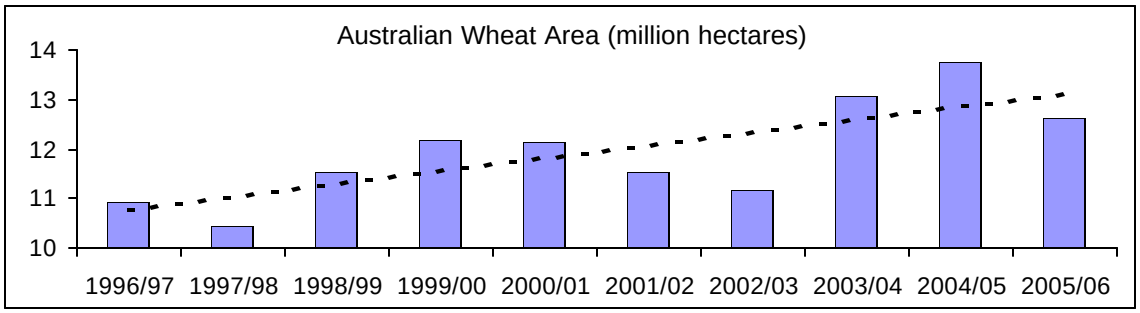
Industry and government sources remain optimistic with regard to the 2006/07 wheat production outlook. ABARE recently forecast wheat production at 24.5 MMT while industry analysts vary between 23.5 MMT and 24.5 MMT.

Long range projections recently published by ABARE have wheat production increasing year-on-year to 27.7 MMT in 2010/2011. This forecast is generally reflective of on-farm activity with ABARE estimating capital expenditure to have increased strongly in recent times.

Area

The area planted to wheat in 2006/07 is forecast at 12.8 million hectares, and represents a slight increase on the revised estimate of 12.6 million hectares planted in the previous year. Larger areas planted to winter cereals is reflective of falling sheep numbers in key mixed farming areas due to drought and low wool prices. High livestock prices following the drought have prevented many mixed farmers from restocking. Winter cereal production is viewed as a faster way of increasing productivity in post- drought circumstances.

According to ABARE's historical data, a planted area of 12.8 million hectares, if achieved, would represent the fourth largest planted area in the past decade.



Source: ABARE Data

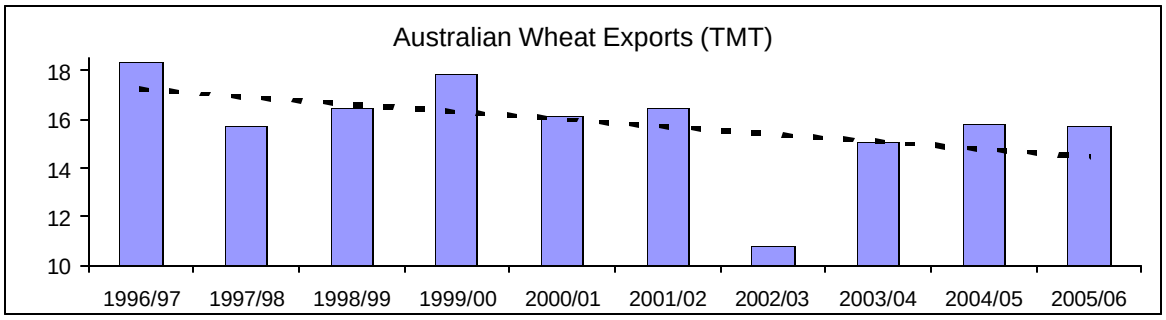
Yield

Post forecasts for 2006/07 have assumed a yield of about 1.87 MT/hectare, well under the near record yield assumed for the previous year but slightly above average. ABARE historical data shows an average year of 1.83 MT/hectare over the past decade but includes drought affected yields.

Exports

Exports of wheat in 2006/07 are forecast at 17.1 MMT, slightly below the sharply revised estimate of 17.5 MMT for the previous year. Lower forecast production is likely to see exports fall slightly. Post has assumed export demand in key markets to remain unchanged in 2006/07. A major disruption in a key market, such as Iraq, may see exports decline (See Policy Section).

If achieved exports of 17.1 MMT in 2006/07 would be considered above average. However, export levels depend upon crop quality. Poorer quality grain (particularly weather damaged) is typically consumed domestically rather than exported. Post has assumed average crop quality for 2006/07, however poorer-than-average crop quality would likely see forecast exports revised downwards.



Source: ABARE Data

Consumption

Total domestic consumption for 2006/07 is forecast at just under 7.8 MMT, down only slightly from the previous year. Despite this fall, this forecast represents historically high consumption. Relatively strong economic growth has seen domestic demand, for food grade wheat, grow steady over the past five years. Record numbers of cattle on feed and strong demand from chicken and pork production has also seen consumption of wheat for stock feed grow significantly in recent years. Industry analysts have predicted that at current rates of growth, Australian intensive feeding industries will likely face tightening supplies of feed grain in the years ahead.

Policy

AWB INQUIRY

The Australian Wheat Board (AWB) is undergoing a Royal Commission of inquiry into its involvement in the Iraq Oil-for-Food scandal to determine if its actions violated Australian law. Prime Minister (PM) Howard called for the independent Royal Commission of inquiry in November 2005 following the report of an independent United Nations inquiry into the Oil-for-Food program (The 'Volcker report') that found that the approximately $220 million the AWB allegedly paid for transport services in Iraq was actually funneled to the Iraqi government. AWB sold $1.7 billion worth of wheat to Iraq under the U.N. Oil-For-Food Program. The findings of the 'Cole inquiry,' named for inquiry head, Commissioner Terence Cole, are expected to be handed down by early June 2006.

Grain producers are concerned that the reputation of Australian wheat internationally has suffered as a result of AWB activities. On February 15, following the Iraqi Wheat Board decision to suspend purchases of AWB wheat pending the conclusion of the Cole inquiry, the

PM announced that the AWB would abstain from using its veto power to allow other Australian companies to compete for a large Iraq contract. AWB stock value has dropped 40 percent since the start of the inquiry.

The inquiry has served to bring the role of single desks into the spotlight, forcing discussion of the costs and benefits. The recurring government review of the AWB's single desk authorities is not scheduled until 2010. However, in light of the revelations from the Cole Inquiry, some within Australia are calling for more immediate action to change the single desk authority.

AWB OFFERS NEW CONTRACT IN PUSH TO GROW WA DURUM

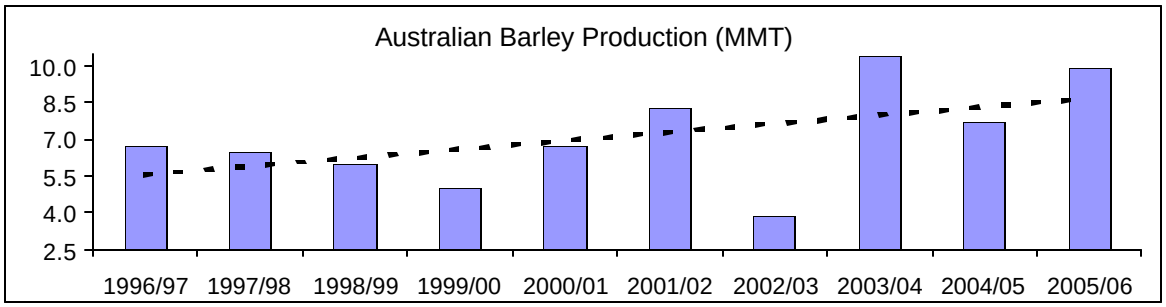
The AWB has launched a new contract to stimulate Western Australian (WA) durum production in 2006 to a targeted 100,000 tons. A hectare-based, fixed-price contract is being offered exclusively to Western Australian durum wheat growers at a significant premium over bread wheat with flexibility over tonnage and quality. Contracts up to 50,000 hectares will be initially offered. According to AWB sources, despite strong Italian demand for WA durum, production in that state has been held in check because there is a widely-held view that durum does not perform as well in the field as bread wheat, making farmers reluctant to grow it. (Source: Farm Weekly, WA, January 24, 2006)

BARLEY

Production

Australian Barley production for 2006/07 is forecast at 8.9 MMT, down just under 1.0 MMT from the revised estimate for the previous year. Barley production is often inflated by a "late seasonal break" which postpones winter cereal planting, favoring shorter season barley. Such conditions potentially see large areas switched from wheat production to barley, as was the case in 2005/06. In formulating the 2006/07 barley production forecast, Post has anticipated normal planting conditions.

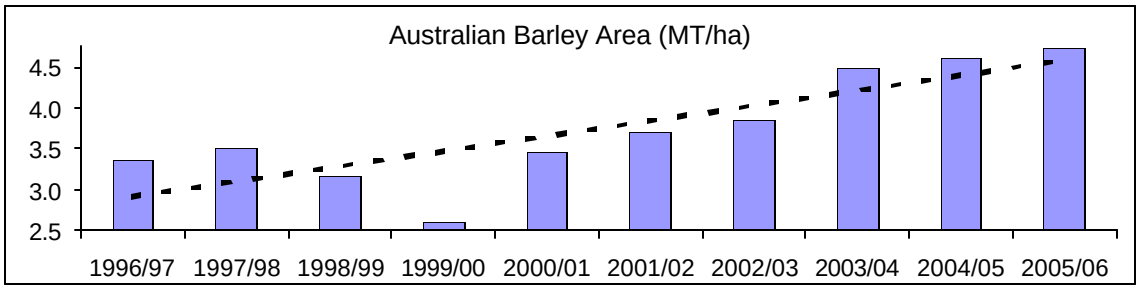
If achieved, a figure of 8.9 MMT for 2006/07 would represent an above average production, despite the significant fall from the previous year.



Source: ABARE Data

Area

Total area sown to barley in 2006/07 is forecast at 4.6 million hectares, down slightly on the previous year despite the forecast significant fall in production. Lower livestock numbers in key growing areas will likely see area remain historically high. Sheep numbers in mixed farming areas have been falling steadily for the past decade and historical barley area has been trending upward over this period.

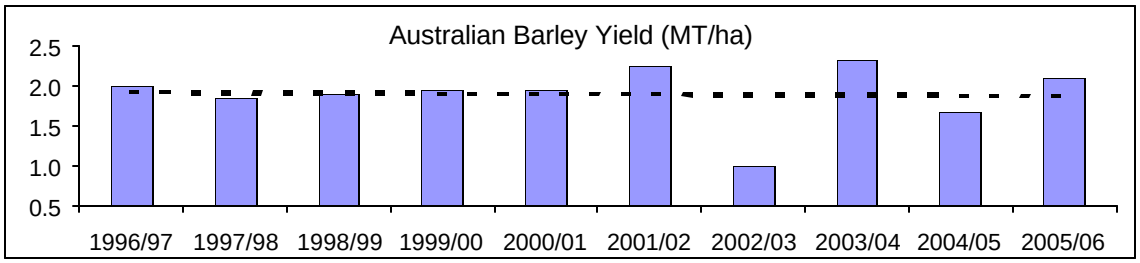


Source: ABARE Data

Yield

Post's barley forecasts for 2006/07 have assumed a yield of 1.92 MT per hectare, down from the assumed average yield of 2.08 MT per hectare for the previous year. Post has assumed average weather conditions and so has assumed a yield closer to the historical average.

ABARE, in its barley forecast for 2006/07 has assumed a yield of 2.0 MT per hectare. Over the past decade there have only been three barley crops with the average yield higher than 2.0 MT per hectare.



Source: ABARE Data

Exports

Barley exports for 2006/07 are forecast at 4.95 MMT, down sharply on the previous year. This downward shift in exports is likely to be driven by lower forecast production. Strong domestic consumption is likely to see the shortfall in production taken from exports. Post has assumed average crop quality in forecasting exports and advises that a below average crop would likely see exports fall further in 2006/07.

Policy

The Australian barley industry is perhaps now entering the final stages of deregulation. Over the past decade, Australian Barley has been marketed by state monopolies, which have included the NSW Grains Board in News South Wales, Grainco in Queensland, the Coarse Grains Board in Western Australia and the Australian Barley Board in Victoria and South Australia. However, the states of Victoria, New South Wales and Queensland are now completely deregulated.

Currently, ABB Grain (formerly the Australian Barley Board) operates the barley monopoly in South Australia. CBH in Western Australia (WA) holds similar rights for barley, although WA recently implemented an export permit system, which allows for limited competition. Grain

growers in South Australia are currently being surveyed in an effort to determine the level of regulation for that state.

Consumption

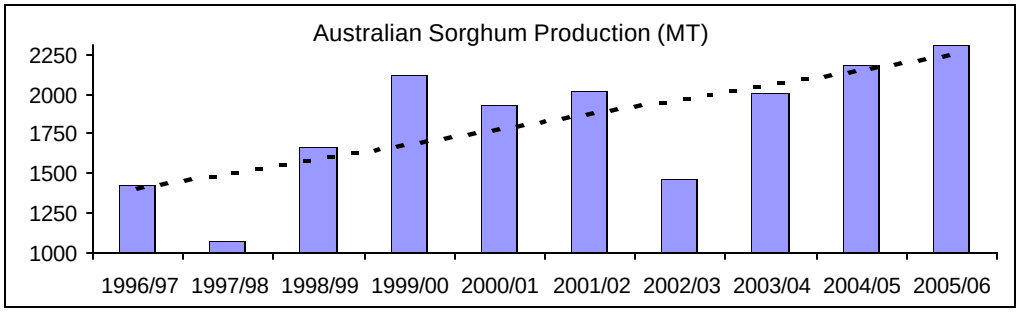
Total barley consumption for 2006/07 is forecast at 3.7 MMT, up slightly on the previous year. The increase of 100,000 MT is likely to be driven by increased feedgrain demand. Post advises that numbers of "cattle on feed" are at historically high levels while "feedlot capacity" is at an all time record. Post anticipates strong feedgrain demand for barley throughout 2006/07.

SORGHUM

Production

Australian sorghum production for 2007/08 is forecast at 1.99 MMT, down slightly on the revised level of production for the previous year. In arriving at this forecast Post has assumed average weather conditions in the lead-up to the 2007/08 season, rather than the above average conditions experienced in the lead up to the 2006/07 season.

The production forecast of 1.99 MMT in 2007/08 is considered to be above average when considering historical data, although this figure is closer to the average excluding drought years. Near record levels of cattle on feed have driven recent increases in domestic demand and this, combined with post's expectations of normal seasonal conditions has led to the forecast of above average production.



Source: ABARE Data

Planted area is forecast to fall in 2007/08 with anticipated average seasonal conditions. Sorghum is typically seen as an opportunity crop by many growers and typically above average planted areas are associated with above average rainfall in the lead up to planting.

Post has assumed a total average yield of 2.57 MT per hectare in arriving at the 2007/08 forecast, almost directly in line with the historical average. This forecast represents a slight fall on the assumed yield of 2.59 MT per hectare for the previous year.

Exports

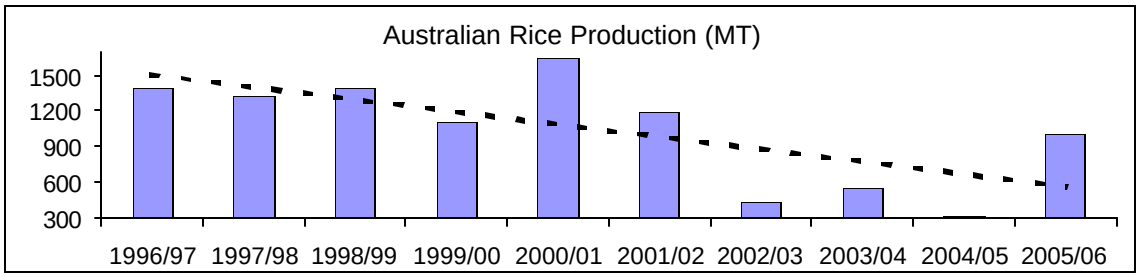
Australian Sorghum exports for 2006/07 are forecast at 275,000 MT. This forecast represents a modest fall on the revised estimate for the previous year and reflects slightly lower production levels. Exports at this level are considered below average and are reflective of the high levels of domestic demand in the stock feed sector.

RICE

Production

Australian rice production for 2007/08 is forecast at 1.1 MMT, up on the revised estimate of 1.0 MMT for the previous year. Steadily improving reserves of irrigation water are likely to see production increase during the forecast year. Despite the significant increases in production over the past three years, the 2007/08 forecast remains representative of the long-term average. Severe drought, which began in 2002/03, resulted in dramatic production declines.

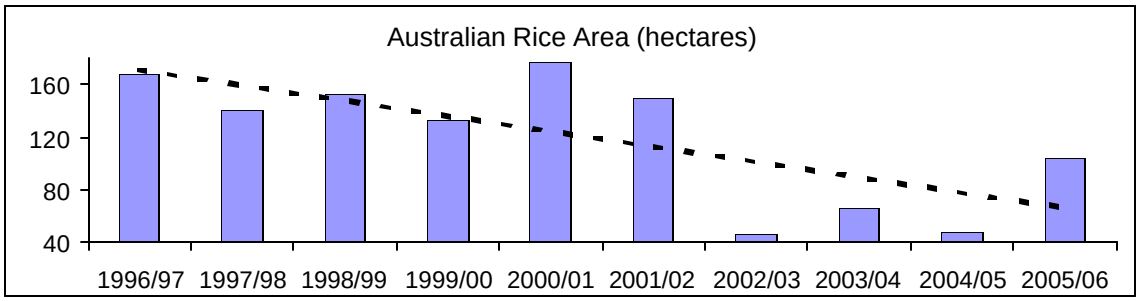
According to industry sources, the past three years has seen much restructuring in the Australian rice industry. This restructuring is believed to have significantly lowered the productive capacity of the Australian rice industry. Production in the order of 1.0 MMT is now believed to be close to full productive capacity under current conditions.



Source: ABARE Data

Area

Total planted area for 2007/08 is forecast to reach 118,000 hectares, up on the revised estimate for the previous year and close to the long term average established using ABARE data. A return to more normal weather conditions has seen reserves of irrigation water supplies steadily improve in 2005/06. Supplies are expected to continue improving steadily in 2006/07 as the effects of normal weather conditions materialize.



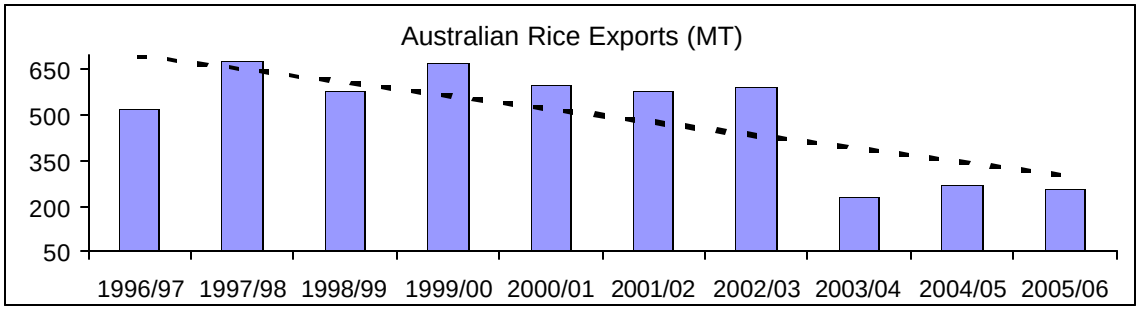
Source: ABARE Data

Yield

Post's 2007/08 forecast for Australian rice production assumes a total average yield of 9.3 MT per hectare. If achieved this would be the fourth highest yield on record and well above the long-term average of 8.7 MT per hectare. Post has assumed more normal weather conditions free of extreme weather events such as frost or drought.

Exports

Australian rice exports are forecast 501,000 MT, nearly double the previous year. Substantial increases in forecast production combined with an improved stocks situation are likely to see exports increase to a level more reflective of the longer-term average.



Source: ABARE Data